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## SECURITIES MARKET, PARTICIPATION OF STOCK MARKET INSTITUTIONS IN THE NATIONAL FINANCIAL MARKET AND DIVIDEND POLICY

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### Abstract

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**Keywords:** *stock market, stock market, stock exchange, trade turnover, dividend payments.*

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*The article discusses the role of the stock market, the participation of stock market institutions in the national financial market, and the relationship between them and dividend policy.*

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### INTRODUCTION

It is known that the stock market increases the mobility of capital (industrial enterprises and bank capital) and allows you to quickly attract funds, including personal savings of households, for investment in various sectors of the economy. We believe that the regular circulation of securities in the stock market will encourage a radical modernization of the country's financial system. This is because securities are an indicator of the economic activity of the stock market and ensure the efficient movement of capital between manufacturing (service) enterprises, commercial banks, stock exchanges, investment funds, and the population. The stock market also helps shape the property class. In this case, each owner of the securities can jointly own the company.

The country has created a legal framework for state regulation and management of the securities market, including the implementation of the Law "About Securities Market"<sup>1</sup> and its new version. According to the legislation, the securities market includes professional activities such as investment intermediary (broker, dealer), investment adviser, investment fund, trustee of investment assets, and organizer of over-the-counter securities trading<sup>2</sup>.

The world experience shows that securities take part in the cumulation of financial resources, capital budgeting, formation of an investment portfolio, distribution and management of financial risks, development of property relations, as a means of trade relations, market redistribution, and also as a means of financing state debts and joint-stock companies. The accumulated experience in our country confirms the existence of

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<sup>1</sup>The Law of the Republic of Uzbekistan "On the Securities Market", No. 163 of 22 July 2008.

<sup>2</sup>The Law of the Republic of Uzbekistan No. 387 of 3 June 2015, as amended and supplemented by the Law of the Republic of Uzbekistan "On the Securities Market".



opportunities for active investment of funds of various enterprises, organizations, and private funds of the population in the expansion and modernization of the production infrastructure.

In particular, the formation of an integrated strategy for the development of the capital market and the implementation of a unified state policy in this area, in turn, promote the formation of an effective stock market infrastructure, accelerate the development and expansion of the secondary securities market, improve corporate governance, is explained by reforms in the field of corporate governance and the development of international relations in the field of capital market regulation.

"Modern standards and methods of corporate governance in the process of reducing state participation in the economy, protecting the rights of private property and strengthening its priority position, developing the stock market as an alternative source of capital for enterprises, financial institutions, and the population, continuing institutional and structural reforms The strategy of important measures on strengthening the role of shareholders in the strategic management of enterprises, capital market, increasing the range of securities traded in the capital market, in particular, the priorities for the development of the stock market"<sup>3</sup>. Fulfillment of these tasks will require accelerating the development of the stock market in Uzbekistan. This shows the relevance of the topic we are studying.

## **MATERIALS AND METHODS**

The stock market, stock market institutions, and their dividend policies are regularly in the spotlight of investors and researchers. That is why we can see a lot of research on this.

The formation of a securities market as a regulatory and adaptively efficient institution leads to lower transaction costs, not only for the securities market itself but also for the financial system and the economy as a whole<sup>4</sup>.

According to economists Caves R., and Porter M., the stock market removes institutional barriers to the flow of capital and acts as a complementary institution to the integrated companies<sup>5</sup>.

The securities market acts both as a regulatory institution for the integration of economic subjects and various institutions, and as an adaptively effective institution that removes institutional barriers to capital movement<sup>6</sup>.

Raymon Barr defines the stock market as a technical institution that has the functions of redistributing free money, valuing property rights, and redistributing risk and information between business participants<sup>7</sup>. Quite often, the stock market is defined as a set of financial institutions that allow a person wishing to make savings to present their resources to a borrower in the stock and bond markets<sup>8</sup>. K.R.McConnell and C.L.Bru define the stock market as an institution that brings together buyers and suppliers of capital resources<sup>9</sup>. At the

<sup>3</sup>Decree of the President of the Republic of Uzbekistan No. PF-4947 of 7 February 2017 "On the Strategy of Actions for Further Development of the Republic of Uzbekistan".

<sup>4</sup> Алифанова Е.Н., Фондовый рынок как регулятивный институт в условиях финансовой либерализации. Финансовые исследования. № 16. 2007

<sup>5</sup> Caves R., Porter M. From Entry Barriers to Mobility Barriers: Conjectural Decisions and Contrived Deterrence to New Competition // Quarterly Journal of Economics, 1977, May.

<sup>6</sup> Алифанова Е.Н., Фондовый рынок как регулятивный институт в условиях финансовой либерализации. Финансовые исследования. № 16. 2007.

<sup>7</sup> Барр Р. Политическая экономия. М., 1995. С. 319.

<sup>8</sup> Мэнкью Грегори. Принципы экономикс. СПб., 1999. С. 538.

<sup>9</sup> Макконнелл К.Р., Брю С.Л. Экономикс. М., 2003. С. 62.

same time, studies by scientists have shown an increase in dividend payments in line with the growth of the stock market.

The research used economic-statistical, monographic, comparative analysis, sample observation, comparison, and other research methods to study the methodological aspects of the securities market, the participation of stock market institutions in the national financial market, and the specifics of dividend policy.

**RESULTS AND DISCUSSION**

In the process of forming the stock market, the Republican Stock Exchange “Tashkent”, which initially organized securities trading, began its operations over almost 30 years. Later, the main legislative acts aimed at regulating the stock market were adopted. A regulated over-the-counter securities market was formed. At the same time, a market for certificates of deposit, corporate bonds, Central Bank bonds, and medium-term government treasury bills was introduced. The participation of commercial banks as direct main issuers and investors in the stock market was strengthened and the activities of professional stock market participants were liberalized. Since 2017, the stock market has been fundamentally reformed. The State Asset Management Agency and the Capital Market Development Agency of the Republic of Uzbekistan were established. Government bonds were reinvested in the stock market and sold to commercial banks through the currency exchange. For the first time in Uzbekistan's independent history, 5-year Eurobonds worth \$500 million were placed at 4.75 percent, and 10-year Eurobonds worth \$500 million at 5.375 percent in 2019. The stock market has now reached a new level of development in which the extensive economic reforms taking place in the country are important. In particular, the 2013-2021 period saw significant changes in the stock market, both quantitatively and qualitatively. In particular, the share of total securities market trading in the country's GDP did not even reach 3 percent between 2013 and 2018, meaning that in 2018 the figure was 2.6 percent and increased by 0.5 percent compared to 2013. In 2019, however, the figure rose significantly to 7.2 percent. Overall, between 2013 and 2021, total trading volume on the securities market increased by a factor of 73 and exchange turnover by a factor of 2.6 (Figure 1).

This situation demonstrates the growth of exchange turnover, acceleration of transactions, development of the entire infrastructure serving the stock market, and improvement of legislative and coordination work.

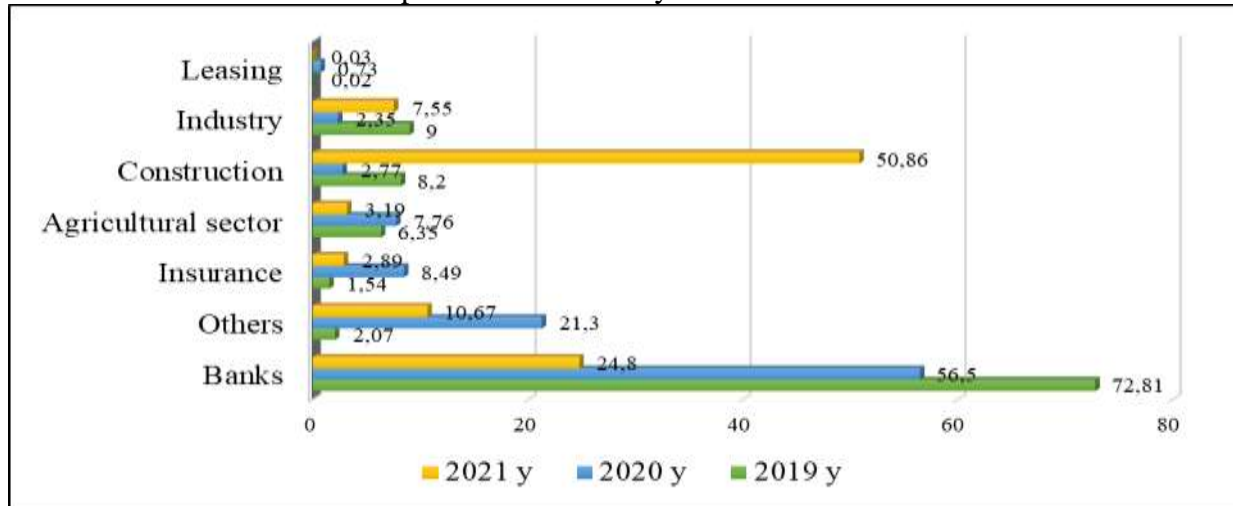


**Figure 1. Gross domestic product, securities market, and turnover of RFB Tashkent<sup>10</sup> ( in billion UZS)**

<sup>10</sup>Compiled on the basis of data from the Republican Stock Exchange “Tashkent” for 2013-2021.

However, in 2013-2014 the total volume of trading on the securities market and the volume of exchange turnover tended to decrease, and as a result of the active implementation of measures aimed at developing the securities market in our country, there has been an upward trend since 2015.

As is known, the Republican Stock Exchange "Tashkent" is the main trading floor of the securities market of our country. During the last year 2021, the total turnover of exchange trade has reached the highest figure in the history of its activity (1260.5 billion sums) and indicates an increase of 7.8 times compared to 2015. This situation is positive from the point of view of stock market development in our country.



**Figure 2. Structure of exchange turnover in 2019-2021 by sector (percentage)<sup>11</sup>**

The analysis of the trading turnover of stock exchange activities in 2021 shows that securities in the financial sector of the economy have gained high investment attractiveness. Even though in 2021, the volume of transactions in securities of banks significantly decreased compared to 2018-2019 (by 24.8 percent), the volume of transactions amounted to 312.6 billion sums. In 2019-2021, the turnover of securities transactions increased in the industrial, agricultural, construction, and insurance sectors (Figure 2).

In 2021 the most liquid securities are issuers active in the construction, industrial, and banking sphere with a total amount of 20 660 deals with securities of issuers in the construction sphere with a share of 50.86%, 11022 deals with securities of issuers in an industrial sphere with a share of 7.55% and 23421 deals with securities of issuers in banking sphere with a share of 24.8%<sup>12</sup>.

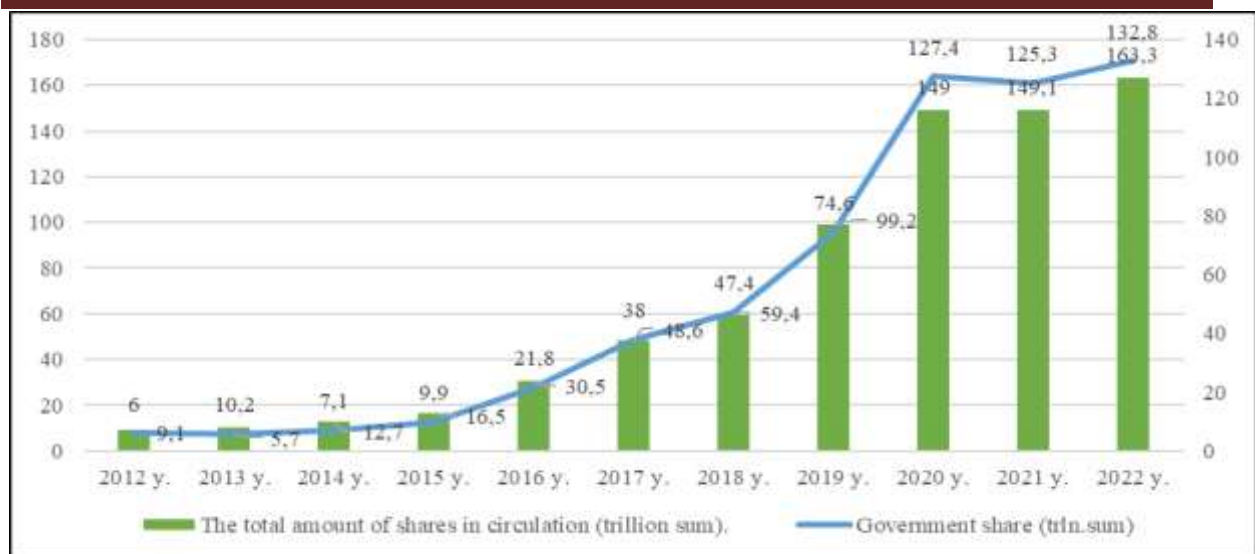
Between 2012 and 2020, total securities market turnover increased by a factor of 30, the primary securities market by a factor of 49.9, and the secondary securities market by a factor of 1.0. The total volume of the securities market is highest in 2019 and amounts to 63886.5 billion, in which the share of the primary securities market is 95.5% and the share of the secondary securities market is only 4.5%<sup>13</sup>.

This situation indicates that the primary securities market in our country is progressing and, conversely, that the secondary market is underdeveloped. At the same time, this is a positive situation in terms of attracting financial resources to the stock market and increasing their investment attractiveness.

<sup>11</sup>Compiled on the basis of data from the Republican Stock Exchange "Tashkent" for 2019-2021.

<sup>12</sup><https://uzse.uz/analytics>.

<sup>13</sup>Based on data from the Republican Stock Exchange "Tashkent" and the Central Depository.



**Figure 3. Dynamics of government share in total shares<sup>14</sup>**

One of the main problems of the national stock market is the inactivity of most stocks due to a lack of liquidity in the market. For example, since the beginning of 2019, there have been 132 announcements of 40.5 trillion soum shares on the Unified Portal of Corporate Information. Of these, six of the issued shares were publicly subscribed for a total of 104.7 billion soums. The main reason for this is the dominance of the state as a shareholder in the stock market. In particular, as of May this year 2022, the nominal value of all issued shares is 163.3 trillion soums and the state share in the authorized capital of 225 joint-stock companies is 132.8 trillion soums or 86.3 percent. At the same time, there has been an upward trend since 2013 (Figure 3).

The participation of the state as a shareholder in the share capital of companies leads to the application of special and specific management decision-making procedures. This is one of the main reasons for passivity on the stock market. In turn, legal restrictions on the purchase of shares on the secondary market on unorganized trading venues have not led to a significant increase in performance. In addition, this has hurt the liquidity of stocks and limits their fundamentality as a buying and selling target.

We will focus on analyzing the dividend policy of stock exchanges, which are major participants in the stock market. First, we will focus on dividends for 2017-2021 on the Uzbek Republican Commodity Exchange, the Uzbek Currency Exchange, and the Republican Stock Exchange “Tashkent” (Figure 4).

<sup>14</sup>Based on data from the Republican Stock Exchange “Tashkent” and the Central Depository.

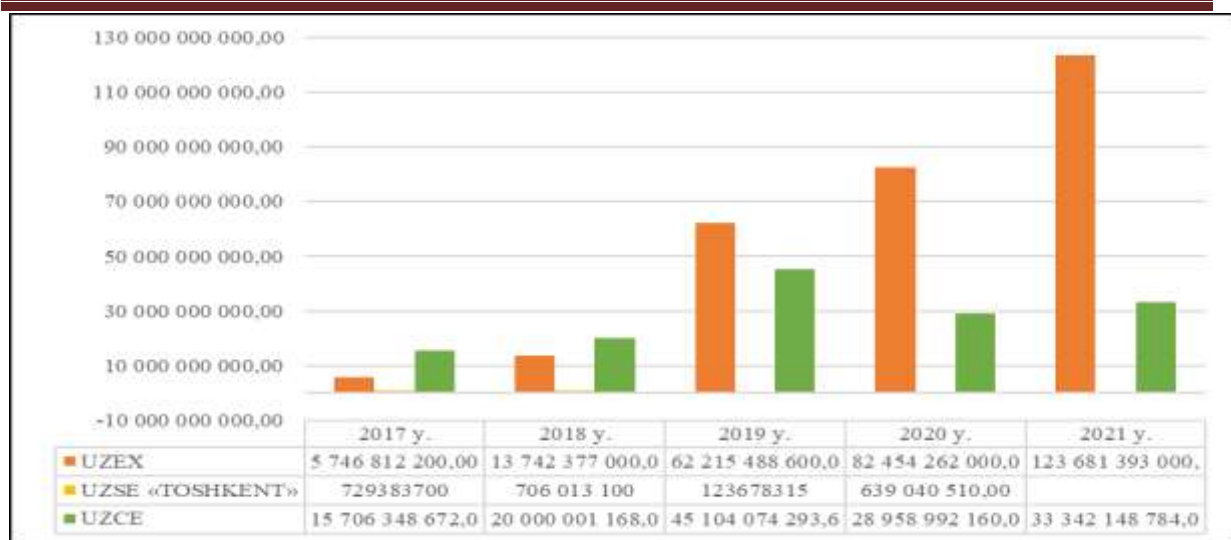


Figure 4. Analysis of dividends accrued on stock exchanges for 2017-2021<sup>15</sup>

According to the analysis, the Tashkent Republican Stock Exchange paid 639.1 million sums in dividends for 2020, which is almost 1.0% lower than in 2017. At the currency exchange of the Republic of Uzbekistan, accrued dividends for 2021 amounted to about 34 billion sums, which shows an increase of almost 4.39 billion sums compared to 2020. In turn, over 123.6 billion sums were paid as dividends in the commodity exchange in 2021, which is almost 1.5 times more than in 2020. According to the analysis, the yield on the stock exchange is sharply higher in terms of returns per share. The sharp decline in dividends on the stock exchange reflects the underutilization of this institution's capacity to finance the economy. Consequently, stock exchanges should pay particular attention to dividend policy in their relations with shareholders in the securities market, both as arrangers and issuers, while listed joint-stock companies should take dividend payout analysis seriously.

<sup>15</sup> Prepared on the basis of the corporate websites of the Currency Exchange of the Republic of Uzbekistan, the Tashkent Republican Stock Exchange, and the Commodity Exchange of the Republic of Uzbekistan.



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## CONCLUSION

As a conclusion based on the above analysis, the following can be noted separately:

With the help of a variety of stock market instruments, opportunities arise to address the problems of reducing the surplus money in circulation. In exchange for the purchase of shares, bonds, and other securities by the public for cash, the amount of money in circulation is reduced and the circular circulation of money is effectively influenced.

One of the main problems of the national stock market is the inactivity of most shares due to insufficient liquidity in the market. The participation of the state as a shareholder in the share capital of companies determines the application of a special and ad hoc management decision-making procedure. This is one of the main reasons for the inactivity of the stock market.

The sharp fall in dividends on the stock exchange reflects the underutilization of the institution's resources to finance the economy. Stock exchanges should therefore pay particular attention to dividend policy in their relations with shareholders, both as promoters and as issuers on the stock market.

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